Protecting Investor Interests from the inside

Q&A

Ciaran Mulligan – Head of Investment Manager Oversight M&G plc

Who are you and what are your responsibilities? (00:05-00:30)

I head up the Manager Oversight Team in the Treasury & Investment Office of M&G plc and effectively what we are responsible for is the implementation of the long-term SAA, the long-term strategic asset allocation of the funds, by appointing fund managers on our behalf to manage the assets as we see fit.

Why is it beneficial to interact with underlying fund managers? (00:30-02:41)

The benefit we get from interacting with underlying managers is twofold. One we can understand their capabilities and what that does is it allows us to understand whether they remain suitable for the investment - for the allocation of our client's assets. In doing so we can also understand what opportunities exist in the market that perhaps are new to us, or we haven't actually considered before. A good example of this would have been Asian fixed income where historically we did not allocate to Asian debt markets, but against our due diligence efforts with underlying managers, we understood that the group had a capability in those markets. Again, more laterally private assets in a low interest rate environment where we're looking for increased yield, ongoing dialogue and ongoing conversations with alternative credit teams within M&G, highlights some additional opportunities that we could add into our long-term strategic asset allocations. Provided that we feel that the manager involved is actually fit for purpose and can actually manage those assets in an effective way. That interaction allows us to increase the capabilities within the Treasury and investment office from an asset allocation perspective and also deliver good outcomes for the customer at the end of the day.

And one of the benefits of interacting with the fund managers is that we have the ability to look at new opportunities. Managers will come to us with an idea and ask us, are we interested in investing in this capability. Often, we will seed a capability. Therefore, we will give a manager a first investment into that strategy and see if it is something that we want to increase over time. Again, some of the more interesting asset classes more esoteric asset classes that we've invested in over time, such as African equity, again has been a really good additional benefit for the portfolios, have come to us because we've actually been asked to seed capabilities in that part of the business.

Again, one of the things we're looking at, at the moment is an increased exposure to emerging market debt. So again, if we're satisfied that we have the capability internally and we still require standards we will look to seed strategies and then build them up to a full allocation over time. And that interaction gives us the benefit of getting comfortable with that process, getting comfortable with the managers approach to running assets, and then getting it up to a full allocation which will then benefit the underlying clients within our multi-asset funds.

How do you complete due diligence on the underlying fund managers? (02:41-03:23)

Yes, so a lot of the due diligence that we'll do will take on many different forms. We'll have qualitative due diligence where we're going to assess process, we're going to assess people, understanding what they're trying to achieve, but also we'll do a lot of quantitative due diligence looking at the risks that they're taking. Looking at the performance metrics that they've delivered over time and try to ensure that going forward we understand how predictable that performance stream will be. As part of that we will ensure that they are operating with a tight governance framework as you'd expect from any fund management organization and ensure that the governance framework is fit for purpose. There have been instances in the past we've encouraged managers to improve their governance framework to ensure that the outcomes that we get are ultimately in our own clients' interests.

How many people are in your management oversight team? (03:23-04:15)

We have 8 people within the manager oversight team within the Treasury and Investment Office and they are primarily tasked with carrying out the due diligence on the managers that we have employed on our behalf, but also to source new managers as in when capabilities may be needed. Now that research takes quantitative aspects and qualitative aspects you can imagine it is quite a time intensive resource, but we feel that the benefit to the end client is justified of that time and effort spent. More recently we have actually had to increase the opportunity set as new asset classes become available to us. And again, we've carried out a number of selections for new managers and new mandates over the last couple of years, increasing our exposure to asset classes such as China equity. At the moment we're looking at interesting asset classes such as Indian equity and again to ensure that we're actually getting *the* best manager to run those mandates on our behalf, it can take quite a lot of time.

Can you tell us how your able to see all parts of the portfolio? (04:15-05:51)

My team, because of the due diligence that we carry out on asset class by asset class basis we have a holistic approach across the multi-asset funds. So, for example not only can we see where our U.K. equity managers are positioned, we can see where our US, European or Asian managers are positioned and then understanding how we're positioned from a multi-asset perspective allows us then to design those mandates and to ensure that we achieve the best outcomes for multi-asset clients. So for example, if all of our clients are looking at the same investment philosophy or they're looking at the same tilts within the portfolio, overweight financials for example, my team will be able to look across the portfolio and restrict mandates when we deem necessary to ensure the best outcomes on a multi-asset level are gathered for clients. And again, it's something that we are looking at on a case by case basis. Not only are we diversified by asset class we are diversified by the managers that we have investing on our behalf and also the way in which they choose to invest, with the style of which they choose to invest, we can ensure that it's suitable on a multi-asset level. We have a lot of systems in place to allow us to access the portfolios. We have a lot of look through to underlying instruments and underlying asset classes and again when we looked through these on a regular basis and in real time, we can see how they move over time to ensure that any changes are something that we are aware of, and then we can be proactive to ensure that any guidelines that we set managers are not only set in acknowledgment of what their capabilities are, but also the capabilities of the wider multi-asset funds.

Are your processes the same for all funds? (05:51-06:26)

The way in which we operate within the treasury and investment office, the same process that we have for PruFund, is replicated across the range of multi-asset funds and that ensures a fair and consistent outcome for our client bases. So, in the way that which we set investment strategy, the way in which we select fund managers, the way in which we set mandates, or we design mandates is a consistent approach. Now naturally there will be different outcomes for different funds that we need to be cognizant of, but where and when we can implement the same process that is the preferred choice.

Can you tell us about the fee review process? (06:26-06:58)

An additional task that my team has responsibility for is that every three years we re-evaluate the fees that we pay to the underlying fund managers. Now the reasons that we do that is to ensure that we are keeping up with market trends, as we know there has been a trend within the marketplace to not only understand the fees we paid, but to negotiate these fees to ensure that customer outcomes are optimized. My team will embark on a tri-annual fee review exercise just to ensure that the fees we pay underlying fund managers on behalf of the multi-asset fund, remain appropriate.

How do you go about manager selection both from an internal and external perspective? (06:58-07:35)

We do cover manager selection and due diligence both internal funds to the group and external funds. Now the way in which we evaluate internal managers and the way in which we evaluate external managers is exactly the same. So, the same team with the same processes understanding the capabilities of those managers that are within the group and outside of the group. And again, the scorecards that we'd have the qualitative due diligence and again the governance that we would go through is identical irrespective of whether they are internal managers that we choose to utilize for our funds, or whether they're external managers.

Can you tell us about mandate design? (07:35-08:48)

Mandate design is a key element of what the team does. After we've selected a fund manager and after we've done the required due diligence, one of the things that we are always looking for is, is there something we can do, over and above an off the shelf solution. A key example would be not accepting the FTSE all share as an appropriate benchmark for UK. But to allocate to an equally weighted benchmark thereby giving us more exposure to UK focused companies in the FTSE 250. Again, we feel that there is a lot of additional returns that can be gained from being a little bit cleverer about the mandate design. So again, we'll work with the underlying fund managers to understand their skillset and then to try and see what we can do in designing that mandate be it from a risk guidelines perspective, the flexibility or the freedom that we give managers to deviate away from benchmark, or indeed the actual choice of benchmark itself. Again other examples included within the African index, where we have a large stock concentration and again within the Asian equity universe, where China is a large component of those indices - we have capped a country, we have capped stock weights to ensure that the overall diversification of those mandates remain appropriate and again generates better risk adjusted outcomes for our customers.

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